NATIONAL FORECAST DESCRIPTION

The Forecast Period is the First Quarter of 2006 through the Fourth Quarter of 2009

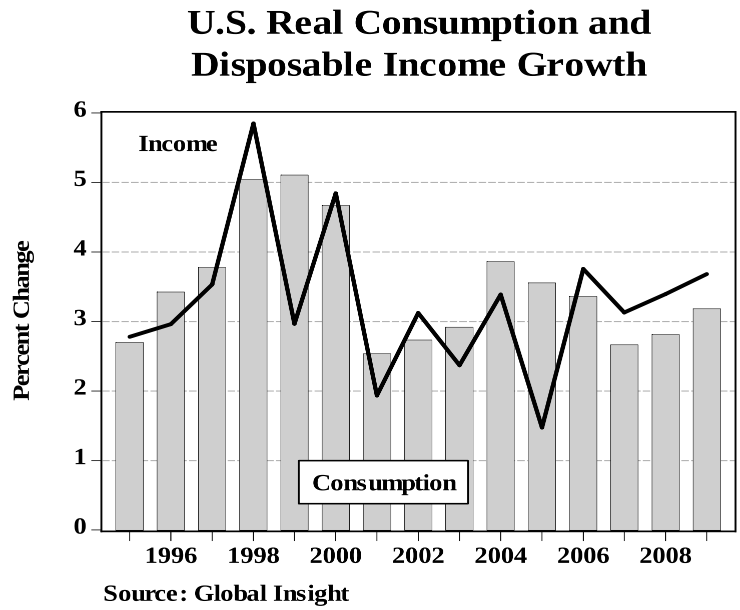
The U.S. economy has recovered strongly from its late-2005 slump and should continue to expand at a healthy clip during most of this year. Buffeted by hurricanes Katrina and Rita, real GDP growth sank to a 1.7% annual rate in the last quarter of 2005, which was a weak ending to an otherwise strong year. (Real GDP advanced a healthy 3.5% in 2005.) The economy did not remain grounded long, however. According to the U.S. Bureau of Economic Analysis' current estimate, real GDP growth rebounded to a 4.8% annual rate in 2006's initial quarter. This pace is well above the economy's potential and represents its apex for the year. By this year's end, the economy is expected to be growing about half as fast as it did in the first quarter, which is below its potential. The economy is anticipated to remain soft through most of next year. It is during this period the economy is most vulnerable to a recession.

Fears of a recession are already circulating. In recent months concerns have been raised about the inverted yield curve, a situation that is likely to be exacerbated if the Federal Reserve hikes rates a couple more times. Over the past two years, U.S. short-term rates have risen 350 basis points, while long-term rates have actually edged down a little. The concern is raised because a yield curve inversion has preceded the last six recessions by about four to five quarters. In fact, since 1970, there has been only one false signal 1998, during the emerging markets crises and the meltdown of the Long Term Capital Management hedge fund. However, the recent yield curve inversion does not necessarily forebode a recession for a couple of reasons. In the past, recessions were required to bring about lower inflation. However, in the current low inflation environment such drastic corrections are unnecessary. Even more important is real long-term interest rates are much lower than in prior episodes of yield curve inversions. Real short-term interest rates are about 2%. It is believed that the real federal funds rate would need to rise to 4% before monetary policy would be considered restrictive. The Federal Reserve is not expected to take this action.

Another worry is American consumers are becoming financially stressed. Real per capita disposable income has been on the decline for two years. In addition, pay gains, as measured by the employment cost index, have slowed over the past couple of years, to the point where they have fallen short of accelerating consumer price inflation. Rising interest rates and minimum credit card payments will also make it harder to service existing debts and make consumers resist taking on new debt. Lower home appreciation will make refinancing a less viable option to fund spending. In addition, consumer confidence has been shaken by companies' plans to reduce retirement benefits and make employees shoulder a larger share of their health costs. These factors will contribute to a slowdown in consumer spending, but not necessarily a major retrenchment. Instead, spendthrift consumers will learn to live within their means. One benefit of consumers' new found frugality is the personal savings rate will once again rise above zero.

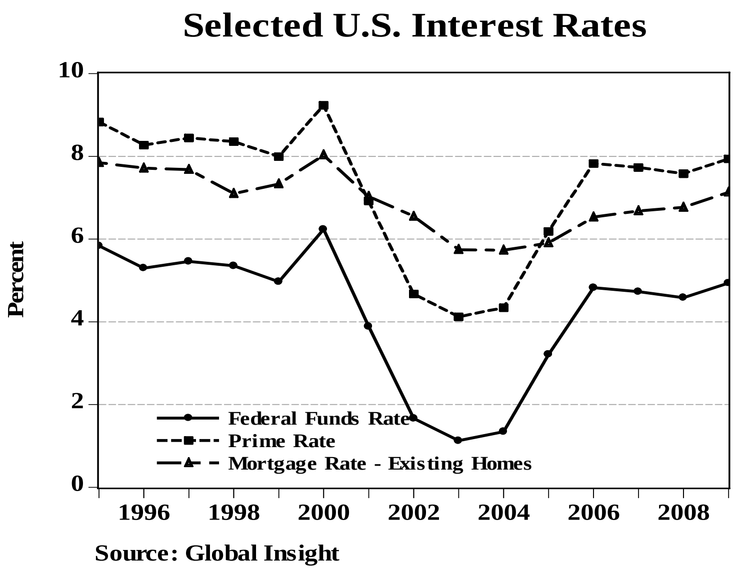
The U.S. economy is anticipated to slow, but not stall over the forecast period. After expanding a respectable 3.3% this year, real GDP is expected to increase only 2.4% in 2007—the weakest year of the forecast. The economy is expected to begin picking up steam thereafter, growing 3.0% in 2008 and 3.3% in 2009.

SELECTED NATIONAL ECONOMIC INDICATORS



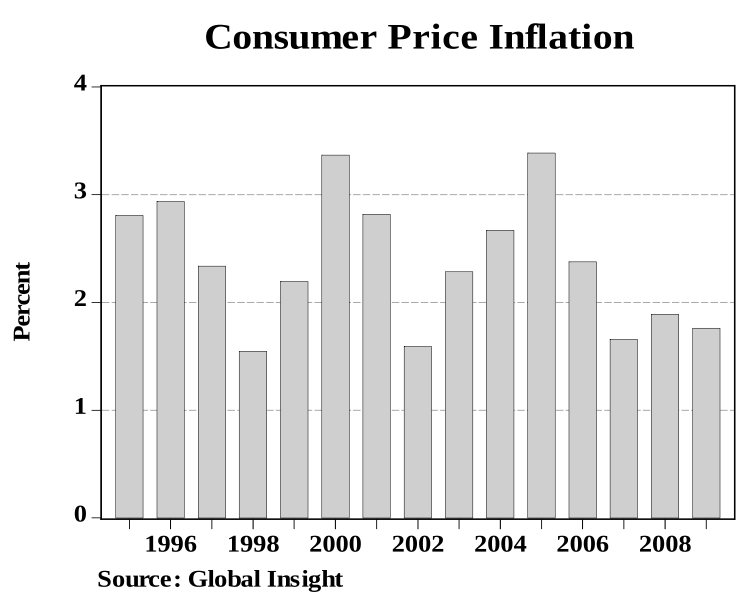
Consumer Spending: After experiencing robust growth in the first quarter of this year, U.S. real consumer spending is expected to slow under the combined weight of rising interest rates, a cooling housing market, and fewer mortgage finance cash outs. Real spending is expected to jump at a 5.2% annual pace in the first quarter of this year thanks to increased expenditures on a wide spectrum of goods. Unfortunately, this strength will not be replicated during the rest of the year. For example, the first quarter's strong growth will downshift to a 2.9% annual pace in the second quarter of 2005. The slower growth rate will be the rule over next year's second half. On an annual basis, real consumer spending is projected to be 3.4% in 2005, which is well below its lofty first quarter pace. The real spending deceleration results from the confluence of three major factors. First, after an extended climb, home sales and construction are projected to decline through the forecast period. These declines are expected to curb spending on furniture, appliances, and home decorating. Second, rising interest rates will have a dampening effect on purchases made with mortgage finance cash outs. Third, home price appreciation is predicted to slow markedly from previous torrid levels. Household net worth increased over 8% in 2005. The value of household real estate surged 15.1%, while other financial assets increased 5.6%. With housing markets cooling off, gains in household net worth are predicted to slow to just 4.5% over this year's four quarters and 4.3% in 2007. Slower home value gains could force U.S. households to reevaluate their spending patterns. In the recent past, rising home values padded household balance sheets even as personal savings turned negative. As home prices grow more slowly, households may once again find it necessary to divert a small share of their income to savings and away from spending. However, the portion of personal income devoted to savings should be small; i.e., just 1.2% in 2009. This pales in comparison to the 4.7% personal savings rate of the 1990s or the 9.0% average savings rate for the period from 1961 to 1990. Rising interest rates, heavy mortgage debt accumulation, and higher minimum payments on credit card debt will lead to a deterioration in household finances over the next few years. The Federal Reserve's household financial obligations ratio is projected to increase from 18.5% of disposable income in 2005 to 19.2% in 2006 to a peak of 20.1% in 2008. Financial obligations include debt service, rent on primary residences, automobile lease payments, property taxes, and homeowners' insurance. As this ratio climbs to new heights over the next few years, households are expected to restrain discretionary spending. Real consumer spending advanced two percentage points faster than real disposable income growth in 2005. However, this situation flips beginning this year, when disposable income expands faster than spending. Real consumer spending is projected to rise 3.4% in 2006, 2.7% in 2007, 2.8% in 2008, and 3.2% in 2009. In comparison, real disposable income advances 3.8% in 2006, 3.1% in 2007, 3.4% in 2008, and 3.7% in 2009.

Financial Markets: As expected, the new Federal Reserve chairman, Ben Bernanke, continued the gradualist inflation fighting policy inherited from Alan Greenspan and led the charge to raise the federal funds rate by 25 basis points to 4.75% on March 28, 2006. This is the most recent, but not last, volley against inflation that began in the summer of 2004. The nation's central bank is expected to raise the

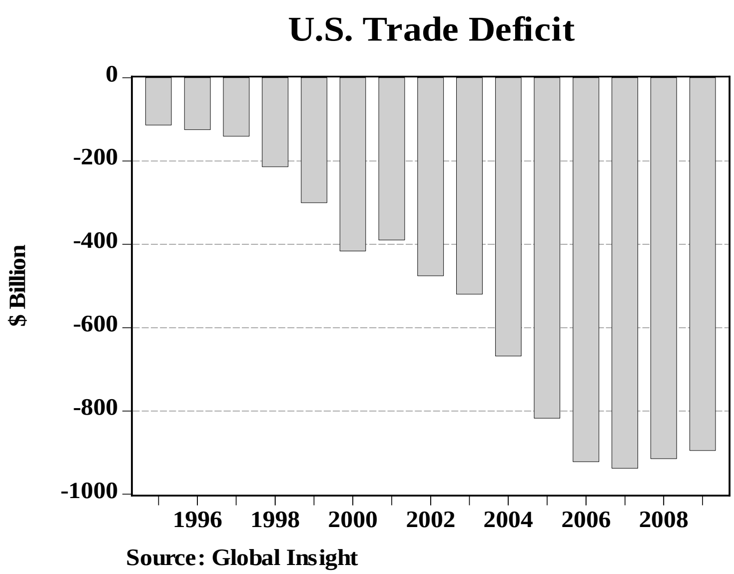


federal funds rate one more time to 5.0% by the end of the second quarter. Over the last couple of years U.S. short-term interest rates have increased 375 points, while long-term interest rates have actually edged down slightly. This rate inversion has raised concerns that a recession is imminent because six of the last economic slowdowns followed when short-term interest rates rose above long-term interest rates. Since 1970, there has been just a single false signal—in 1998, during the emerging markets crises and the meltdown of the Long Term Capital Management hedge fund. However, because of major structural changes over the past couple of decades in both the global economy and global financial markets, inverted rates will not necessarily lead to a recession. One of the reasons for the interest rate inversion is long-term interest rates are low. These rates have been on a downward trend for a couple of decades because of structural factors. First, the decline in the rate of inflation from around 15% in 1980 to low single digits has reduced long-term bond yields. The much-improved inflation picture reflects several factors, including improved monetary policy, increased economic competition, and rapid technological change. Second, real interest rates have fallen. Some of this may be due to the fact that not only is inflation lower, but it is also less volatile. As a result, investors require a smaller inflation-risk premium than in the past. Third, long-term interest rates have been held down by strong demand for these instruments compared to their supply. The demand for long-term bonds have been fueled by the greater emphasis on fixed-income assets in pension fund portfolios and a large share of the global "savings glut" being invested in safe, liquid, industrial-economy government bonds (primarily in the U.S.). On the other hand, the supply of bonds has been limited by the major shift in recent years of corporate restructuring that has improved corporate balance sheets and reduced the reliance on debt financing. The bottom line is with the current low inflation and low interest rate environment an inverted yield curve is not necessarily an early warning of a recession.

Inflation: Annual consumer inflation is predicted to drop below 2% over the forecast period, as energy prices eventually retreat from last year's spike. Driven by a nearly 17% jump in its energy component, the all-urban consumer price index (CPI) increased 3.4% in 2005, which was an acceleration from the 2.7% gain in 2004. Consumers were reminded about higher prices every time they fueled their cars and paid their utility bills. The retail gasoline price rose 21.8% in 2005; fuel oil and coal increased 28.2%; natural gas jumped 19.6%; and electricity rose 6.1%. These prices are anticipated to gradually decrease. The results of easing energy prices are retail inflation should drop and



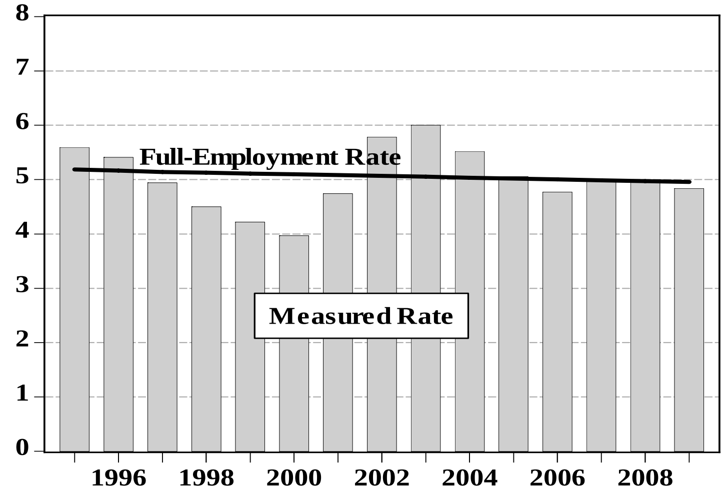
be less volatile and the gap between total consumer inflation and core consumer inflation (total consumer inflation less energy and food) should narrow. After rising 3.4% in 2005 and an anticipated 2.4% in 2006, consumer price inflation is expected to drop just below 2% in the remaining years of the forecast. Due mainly to last year's energy price surge, overall inflation rose 3.4%. The core inflation rate, which does not include energy prices, increased 2.2%. The gap between the two inflation measures was 1.2 percentage points. This gap should be cut in half by 2009, as total inflation declines and the annual core inflation rate holds steady at a projected 2.2%. The main reason the core inflation rate is so stable is because its major driver, employment costs, are predicted to grow at a steady pace of about 3.4% per year. Interestingly, the forecasted employment cost increases are higher than the 3.0% gain experienced in 2005. The higher employer cost inflation over the next few years is consistent with the tightening national labor market.



International: The outlook for global economic growth remains bullish despite weak fourth quarter numbers for the Eurozone and U.S. economies. Indeed, global growth seems to have broadened significantly since the middle of 2005 and inflationary pressures have generally been receding since November 2005, suggesting the current expansionary phase of the global business cycle has become more sustainable. The North American and Chinese economies should expand at robust rates for at least another year. These two powerhouse economies will receive help shoring up the world economy from Japan and the Eurozone countries. China's real GDP grew 9.9% in 2005, but is expected to grow by just 9.4% in 2006 and 8.8% in 2007. The Japanese economy hit a slow patch in 2005's third quarter, but showed renewed strength in the fourth quarter. Interestingly, this expansion is driven by domestic demand—mainly private consumption and capital expenditures. Japan's economy is projected to rise by about 2% in both 2006 and 2007. While Japan's economy expands slower than economies of either the U.S. or China, it is a vast improvement over its past stop-and-go performance. Europe may finally be living up to expectations. Most of the latest data and survey evidence indicate the Eurozone economy began 2006 relatively strongly, and it should remain that way through the first half of the year. It will have a hard time sustaining that performance, however. Specifically, after expanding 2.0% this year the Eurozone's economy will advance just 1.6% next year. Given current conditions, world GDP growth should therefore maintain an above trend pace through the next few quarters. World GDP should expand 3.5% in 2006 followed by 3.2% growth in 2007. The U.S. current account deficit is expected to deepen through 2007, when it hits the bottom at nearly $938 billion. The deficit should shrink slightly during the last two years of the forecast, improving to $895 billion in 2009. The U.S. dollar will take longer to improve. Under the weight of the persistent trade deficits, the dollar's value should slide against its major trade partners' currencies through 2008.

Employment: Last year was a banner year for job growth. The U.S. economy created jobs at a healthy clip during 2005, and some of this momentum should carry forward into this year as well. According to the U.S. Department of Labor, the number of nonfarm jobs grew 1.5% from 2004 to 2005, which was the biggest gain in the last five years. Thanks to the steady job creation, the nation's unemployment rate fell from 5.2% in January 2005 to 4.9% by year's end. This strength was evident during the first quarter of 2006, when nonfarm employ advanced an average of about 200,000 jobs per month and the unemployment rate fell to 4.7% in March. After beginning this year strong, nonfarm employment starts to weaken. Employment gains fade in late 2006 and early 2007. On a fourth-quarter-to-fourth-quarter basis, employment growth slows to 1.87 million jobs in 2006, from 1.92 million jobs in 2005, and then cools further to 1.5 million jobs in 2007. Job gains pick up to 1.74 million in 2008 and 1.55 million in 2009. Despite the slower job growth, the U.S. unemployment rate hovers near 5% during the forecast period, which is very close to the full-employment level. This relatively tight labor market will keep employer costs growing at a steady pace during the next few years. Virtually all of the forecasted job gains will be in the nongoods-producing sector, with the professional and business services component posting the strongest growth. The goods-producing sector, on the other hand, will be hampered by expected manufacturing job losses and the flattening of the construction sector. On an annual basis, U.S. nonfarm employment is predicted to expand 1.5% this year and 1.2% in the remaining years of the forecast.

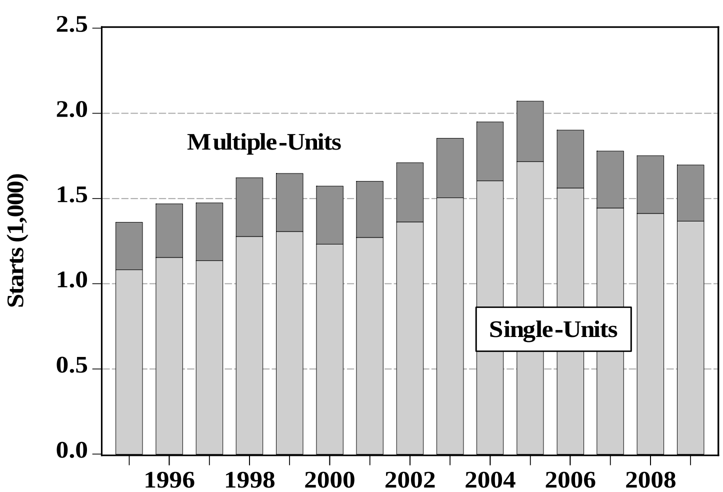
U.S. Civilian Unemployment Rate



Source: Global Insight

Housing: The nation's housing sector has been broadcasting mixed signals lately that suggest one of the economy's hottest performers is beginning to cool. Despite weakening demand, housing prices climbed at the beginning of this year. In January, the median price of an existing home was almost 12% higher than in January 2005. The Office of Federal Housing Enterprise Oversight reported its price index for new homes in the fourth quarter was almost 11% above the previous year. National housing starts jumped 14.5% in January 2006, to a 2.28-million-unit annual rate, which is even higher than 2005's 2.07 million unit starts. However, extrapolating one month's performance for the entire year is dangerous. In fact, a closer look at the data suggests another year of record housings starts is not in the offing. Much of January's surge reflected this winter's unusual weather conditions. December's housing starts were held back by rainy weather in the West, so they were ripe for a rebound. In addition, January 2006 was the warmest January since at least 1895. The favorable weather caused many starts that were postponed in December and others that would have taken place in February and March to be squeezed into January. Unfortunately, the warmer weather did not help housing sales. New home sales fell 5.0% in January and existing home sales dropped 2.8%. The three-month moving average of new home sales is down 4.5% from its July 2005 peak, while existing single-family home sales are down 5.6% from their three-month moving-average peak in

U.S. Housing Starts



Source: Global Insight

August 2005. January's weak new and existing home sales are strong evidence the housing market should decline after five record-setting years. While the housing data to date consist of a mix of good and bad news, with time it should grow increasingly clear the housing market is softening. For example, housing starts are anticipated to dip below 1.90 million units this year and fall to just below 1.70 million units in 2009. Likewise, the sales of both new homes and single-family houses are predicted to decline over the forecast period. The cooling housing market will exact a toll on housing prices. Prices are not expected to decline, but the rate of appreciation will slow noticeably. For example, after rising nearly 10% in 2005, the average price for an existing home is projected to rise 3.3% this year, 2.2% next year, 3.7% in 2008, and 3.7% in 2009.